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The Commercial Real Estate Investor's Guide in Kilkenny SA:

A Step-By-Step Advice to Economic Wealth

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Abstract

Successful commercial property investment requires an understanding of the complex market factors at work, unique financing requirements, property management options, leasing arrangements and a good grasp of the potential risks.

An understanding of these factors will provide a reliable basis for the selection of commercial investment properties that will succeed, being either retail, industrial or office.

The following considerations apply equally to large and small commercial property and will help to identify suitable locations and opportunities for investment.

I. Introduction

Have you thought about investing in commercial property kilkenny?

You’re not alone — faced with the prospect of more moderate returns from their residential property investments, many investors are considering this as an alternative.

By this I mean offices, shops or warehouses.

Some investors are looking for diversification in their investment portfolios; others are looking for positive cash flow.

Some investors have noticed that most of the institutional property investors as well as many of the investors you read about in the Financial Review Rich 200 List own mainly commercial properties.

Yet others have read about the benefits, including:

- Strong returns
- Stability of income
- Low risk
- Exposure to different sectors of the economy
- Tax benefits
- Hedging against inflation
- Investment control
- The ability to add value
- Leverage

In this comprehensive pdf will be a great beginner's guide for your commercial property kilkenny investment journey.

Successful commercial property investment requires an understanding of the complex market factors at work, unique financing requirements, property management options, leasing arrangements and a good grasp of the potential risks.

An understanding of these factors will provide a reliable basis for your commercial investment property journey.

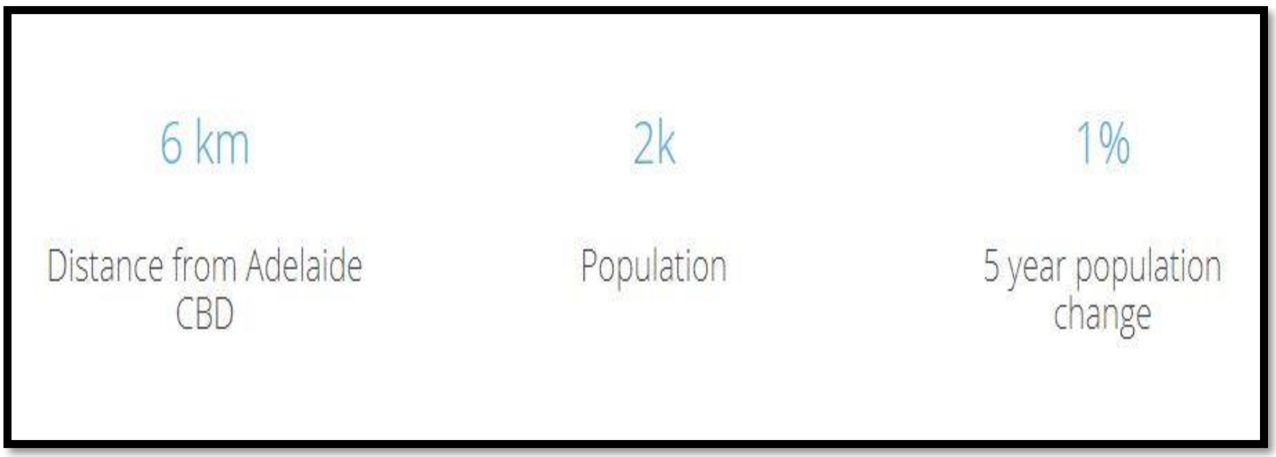
SUBURB PROFILE REPORT FOR KILKENNY SA (5009)

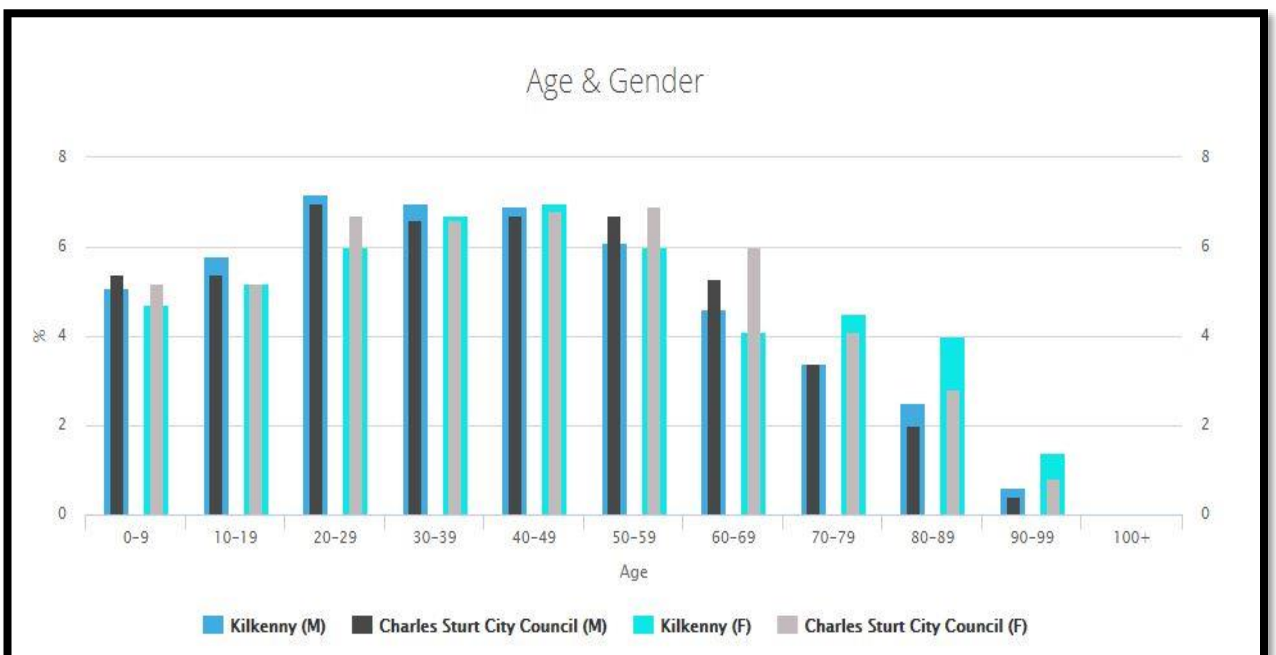
Kilkenny is an inner north-western suburb of Adelaide, South Australia. It is located in the City of Charles Sturt. It is named after Kilkenny (Cill Chainnigh), Ireland. (Source: https://en.wikipedia.org/wiki/Kilkenny,_South_Australia)

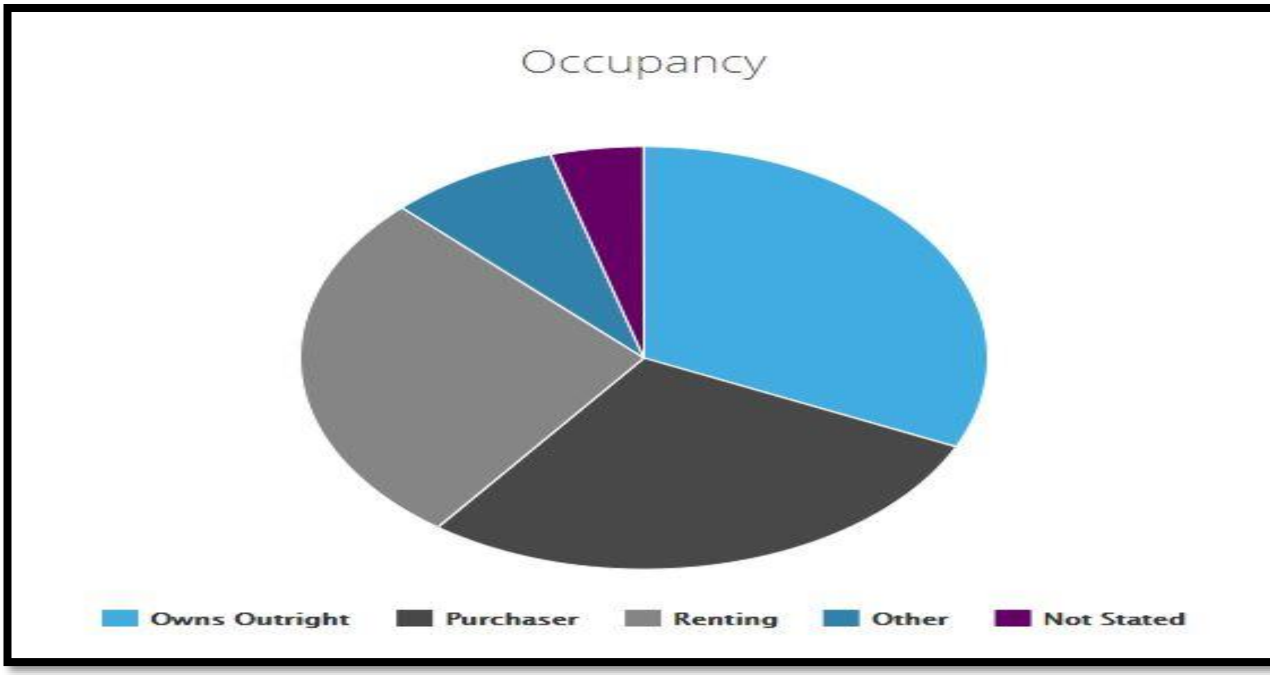
Kilkenny, SA 5009

Part of: Charles Sturt Council

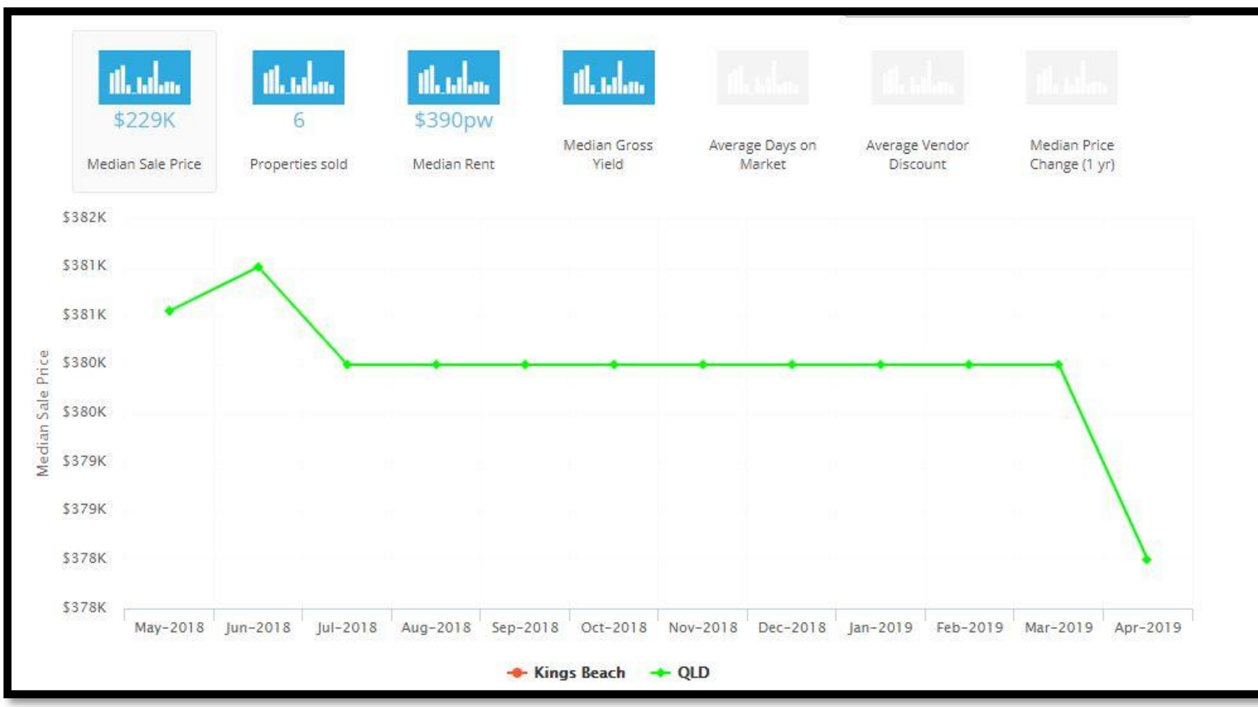
The size of Kilkenny is approximately 1.1 square kilometres. It has 3 parks covering nearly 0.8% of total area. The population of Kilkenny in 2011 was 1,633 people. By 2016 the population was 1,641 showing a population growth of 0.5% in the area during that time. The predominant age group in Kilkenny is 40-49 years. Households in Kilkenny are primarily couples with children and are likely to be repaying $1800 - $2399 per month on mortgage repayments. In general, people in Kilkenny work in a professional occupation. In 2011, 62.2% of the homes in Kilkenny were owner-occupied compared with 60.6% in 2016. (source: Australian Bureau of Statistics)







Market Trends for Kilkenny



Source: https://www.propertyvalue.com.au/suburb/kilkenny-5009-sa#Unit

II. The Difference between Commercial And Residential Property Investments

Before you embark into commercial property investment you must recognise that there are considerable differences between commercial and industrial properties compared with residential real estate.

The main ones can be summarised as follows:

- Commercial properties tend to **yield a higher return** than residential properties – usually between 5% to 10% net; compared to residential properties which yield 3% to 4% gross (then you still have to pay the rates, taxes, insurance, etc.) That's becuase professional investors require a higher rental return from their commercial properties to make up for the relatively weaker capital growth, the longer vacancy factors and potentially higher risks.
- **Leases for commercial properties tend to be for longer periods**, often 3 to 5 years as opposed to the 12 month lease which is common in residential properties.
- Rents are usually charged as a rate per square meter and **rent reviews are incorporated in the lease document.** Rent reviews may be calculated every year or 18 months and can be an increase to market rental or an increase by the increase in the amount of the CPI. Some leases have a clause preventing the rent to drop even if the prevailing market rent drops.
- **Tenants in commercial properties usually pay all the outgoings** such as rates, taxes and insurance, while with residential property the landlord pays these.
- Because your **tenant** conducts their business from your commercial property, they **tend to look after it** better than residential tenants do, usually maintaining and painting the property.
- Commercial properties are **less management intensive** – tenants don't tend to bother you for small items like leaking taps.
- Lenders will usually only lend up to 70% of the value of commercial or industrial properties. I don't know of any mortgage insurers who will lend on commercial property. This means the **investor needs to come up with more equity to purchase a commercial property**.

- The **initial capital required** to get in to a good commercial property is usually considerably higher than that required for residential properties, as a good shop or office in a strong centre may cost 2 or 3 times the price of a unit or apartment. Sure you can buy cheap shops in secondary centres, but they will usually have secondary tenants who are more likely to go broke and leave you with a vacancy.
- **Interest rates** for a loan on commercial properties are usually higher than for residential properties.
- When vacancies occur in commercial properties, they are often vacant for considerably **longer periods** than the week or 2 you may have a residential property vacant. How often have you seen a shop in your community shopping centre vacant for weeks or months?
- The **cycle for commercial properties is different** to that for residential properties and is even more dependant on the general economic factors than the residential market.
- The **lease** required on a commercial property is much more complex and usually requires a solicitor to prepare it.
- **It's easier for you to pick a top performing residential investment.** Most beginning investors know what to look for in a residential property – they have lived in a house, but few would know what a tenant looks for in a good commercial or industrial property unless they have conducted their own business from one.

Benefits of Commercial Property

There are of course many benefits from investing in commercial property

- **Strong returns** — Over the years commercial property has provided strong returns as a combination of capital gain and income.
- **Stability of income** — One of the important features of commercial property is returns are generally high and more secure. Returns for property fluctuate considerably less than returns on shares. Commercial Property
- **Low risk** — There is less volatility in the values commercial property than in shares — if you own the right property.

- **Exposure to different sectors of the economy** — Retail and industrial properties have a direct relationship to the general state of the economy. Retail property depends upon consumer spending.
- **Tax benefits** — Commercial properties provide generous tax benefits with substantial depreciation allowances. Some buildings also attract building allowances, were a portion of the structural cost can be offset against the assessable income.
- **Hedge against inflation** — The value of commercial property and rentals of commercial properties have outpaced inflation over the long period.
- **Investment control** — As the owner of a commercial property you have a significant degree of control over your investment. You can choose to do improve your return through renovations, upgrading, and change of the use of the property, or you may amend the terms of the lease or the type of tenant you have and you always have the option of further development of the property or dispose of it.
- **Leverage** — Just as with residential properties it is possible to leverage your returns by borrowing up to 70% of the value of commercial property.
- **Adding value** — Just as investors in residential property are able to add value by buying a run down property and renovating or redeveloping it, there are opportunities in commercial property to add value. In particular, if you can increase the rental income from your property this will directly reflect on the valuation of the property.

Ways you can add value to your commercial property investment include:

- Renovating
- Upgrading
- Subdividing or enlarging the block
- Improving the appearance of the property

- Obtaining permission for redevelopment
- Renegotiating the lease
- Changing its use for example to residential

The Negatives of Commercial Property

Some of the disadvantages of investing in commercial properties include;

- **Lack of liquidity** — Selling a commercial property can take several months — often longer than it takes to sell a well located residential property.

- **Lack of pricing information** — Compared to residential property there is little pricing information available for investors in commercial property. It is therefore more difficult to know the value of your particular property.

- **Scarcity of other information** — If you are interested in share or in residential property there are many blogs, magazines, newspapers and websites that will help keep you informed and make you a better educated investor. There are very few information resources for people interested in commercial real estate. You will find some articles in the Australian Financial Review and in the reports produced by some of the larger commercial property agencies.
- **Higher costs** — The entry level to purchase a commercial property is usually higher than that for residential. Partly because the price of a good commercial investment is substantial and partly because you require a larger deposit as banks wont lend you as high a proportion of your property compared to residential real estate
- **Ongoing management** — Direct property investment in commercial properties can require your ongoing management but usually requires less management than similarly priced residential properties.

Commercial Property Values

Values of commercial properties are largely driven by rental returns or the potential for capital growth.

To estimate the value of a 100 sqm shop which is leased for $40,000 net per annum, the general rule of thumb is to divide the rental by a yield acceptable to the market at the time.

Working on a 7.5% yield the following formula would apply:

$40,000 / 7.5% = $533,333

Which means the property is worth about $530,000.

Yields vary from 3.5% for premium locations with strong tenants to up to over 10% in poorer locations with weak tenants.

Other factors that affect the return are potential for capital growth, redevelopment potential and tax related factors.

This is completely different to the way residential property is valued.

A house is worth much the same if it has a tenant in place or not.

In fact it is usually worth less if there is a tenant on a long term lease as owner occupiers would not buy the property.

With commercial properties, which are valued based on their rental return (or potential income) a vacant property usually carries a substantial discount to a leased property.

This creates some tremendous opportunities because if you buy a vacant property and find a tenant to take it on a long term lease you increase its value substantially.

Similarly if you find a property that is significantly underlet and at the lease expiration or the market review of the rental you can increase the rent, once again you increase the value of the property

THE FUNDAMENTAL DRIVER FOR COMMERCIAL PROPERTY VALUE GROWTH.

These are a little different to residential property and while obviously driven by supply and demand, commercial demand is driven by economic factors as well as population growth.

A strong economy is fundamental for the increased commercial property values.

As the economy starts to grow the demand for warehouse space grows, followed by increased demand for retail space as consumers feel more confident and spend more, and this is in turn followed by increased demand for office space.

Other factors that influence commercial property demand include:

1. Fluctuations in Interest rates

When the Reserve Bank raises interest rates to manage inflation and slow the economy, the higher cost of money slows the rate of company growth. At the same time higher rates tend to reduces consumer spending. This has a slowing effect on the demand for both commercial and residential property.

2. Infrastructure development

The development of infrastructure and new freeways can change the demand for commercial property.

The opening of bypasses and ring roads in our capital cities means cheap land and access to good roads in the outskirts of our cities provides impetus for transport companies to move their warehousing facilities.

3. Demographics

As different segments of the population are motivated to move to different locations, new opportunities arise.

For example, Baby Boomers have increased demand for healthcare services, in certain suburbs while young families require more childcare facilities in the new outer suburbs.

As lifestyle becomes increasingly important, more people want to work nearer to home. Thus there has been an increase in the number of small offices located in the middle ring suburbs

4. Population growth

Locations that have strong population growth require more services.

As new suburbs spring up, shopping centres are built to service the growing consumer demand. Grocery stores are required, then cafes and specialty shops, support services (small industrial), and then office space.

5. Retail spending

Consumer spending increases demand for product, so the requirements for warehousing and retail outlets increases.

III. The Eight Golden Rules of Commercial Property Investing

While Australian’s are becoming more comfortable with the idea of having a stake in commercial buildings very few really understand the rules of investing in commercial real estate. According to international real estate investor Dolf de Roos, people make some huge and ultimately costly mistakes when they enter the commercial property investment game.

People need to understand the difference between residential and commercial real estate investing. Different rules apply and they must be followed if you want to be successful. Of all the extremely high-net-worth property investors I know, only two own predominantly residential properties. The rest all own commercial.

Here are eight rules that all good commercial property investors should consider:

1. Investing in commercial property is a totally different game

When you invest in residential property, you deal with people. With commercial property you deal with contracts. This requires a different level of advice and compliance in order to protect both you and the tenant. It requires that you become better educated. It requires that you have a good team of professionals around you. Your financiers and your legal team will be very important to your success.

2. Fall in love with the deal, not the property

One to the biggest mistakes investors make when they buy into an investment property (whether it's commercial or residential) is that they fall in love with the property. When it comes to a commercial property, in most cases, the property is only as good as the tenant and the lease. Without a tenant, the property could be useless – or it could be an amazing opportunity. It all depends on your education and experience.

3. Look beyond what the current use of the property is

Know your market. What else could the property be used for? For example, could you pick up a warehouse with little structure and build offices. Is the area zoned for some residential and could you therefore redevelop the property and get a greater return. The rent you can get on a commercial terrace house in Sydney's Paddington is likely to far outweigh what a residential tenant will pay to rent the same property.

4. Be counter-cyclical

Don’t do what everyone else does! The most successful property investors buy when everyone else is selling, and bide their time when everyone else is buying. Right now, many residential real estate investors are starting to look at commercial, that papers are hinting that while residential property prices are down, returns on commercial are likely to remain healthy – so if you want to get into the market, don’t wait until the market is flooded with newcomers.

5. Always try to buy with zero or little down

For years we have been told by our parents to “pay off your debt”. We have this natural inclination to want to get rid of our mortgages. Putting in a lot of cash does not make good investment sense. Educated investors know how to secure deals with little or no outlay.

6. Seldom Sell

In general people who sell their properties never do as well as people who just keep hanging on to them.

7. Always buy from a motivated seller

The more motivated (read desperate!) the seller, the better the deal will be. Often properties passed in at auction can be a good deal – especially if the owner desperately needs to move the property. Remember there are far fewer potential buyers for a commercial property compared to a residential one.

8. The Deal of the Decade comes along about once a week

If you believe that great deals do not really happen, then you will not see one even if you fall over it. The more good deals you see the more you believe they exist. But, you need to know what you’re looking for. You need to have access to finance, be able to accurately analyse the property and know what the market is doing.

IV. Guide to Investing In Commercial Properties Kilkenny

The following considerations apply equally to large and small commercial property and will help to identify suitable locations and opportunities for investment.

- **Understand the commercial property market drivers**

The fundamental driver for commercial property growth is similar to the residential market – it's demand. However, commercial demand is driven by economic factors as well as population growth.

A strong economy is fundamental for any successful commercial property investment. Booming commercial markets are supported by strong international, national and local economies.

As the economy starts to grow, transport companies experience the first signs of growth, driven by the increased demand for materials used in the manufacture of goods for sale, an increase in imported goods and/or an increase in building. Transport stocks begin to rise on the back of increased business and earnings, more jobs become available, and the demand for office space increases.

As the economy continues to grow, the demand will start for warehouse space, then retail, followed by office.

Other factors that influence commercial property demand are:

- **Interest rates**

The Reserve Bank of Australia uses interest rates to manage inflation. Increasing interest rates helps slow growth; the cost of money is higher and the rate at which companies can grow is reduced. Additionally, increasing rates reduces consumer spending. This has a slowing effect on the demand for both commercial and residential property.

- **Infrastructure development**

The development of infrastructure can increase the demand for commercial property. The opening of the M7 bypass around the western outskirts of Sydney led to an increased demand for warehouse property in the outer ring close to the M7 exits. Cheap land and access to good roads provides impetus for transport companies to move their warehousing facilities.

- **Demographics**

As different segments of the population are motivated to move to different locations, new opportunities arise. For example, the ‘sea change’ Baby

Boomers have increased demand for healthcare services, among others,

in coastal centres, and new suburbs with young families require greater childcare facilities.

As lifestyle becomes increasingly important, more people want to work nearer to home. Thus there has been an increase in the number of small offices located in lifestyle suburbs such as the northern beaches area of Sydney.

- **Population growth**

Locations that have strong population growth require many services. As new suburbs spring up, shopping centres are built to service the growing consumer demand. Grocery stores are required, then cafes and specialty shops, support services (small industrial), and then office space.

- **Retail spending**

Consumer spending increases demand for product, so the requirements for warehousing and retail outlets increase.

- **Understand the risks**

A well-researched commercial property investment can be very lucrative and require little attention for some time once it’s tenanted. However, awareness of the risks will enable the investor to be prepared for adverse circumstances.

Risks to be aware of :

- **Lease terms**

Long-term leases of 3–5 years or more can have advantages, but it takes longer to find a tenant if the property becomes vacant. Prolonged periods of vacancy are common and an investor will need to be able to handle the carrying costs during this period.

- **Size of commercial property**

Larger commercial properties can be harder to lease than small suites and will cost a lot more to hold.

- **Supply/demand**

Changes in supply conditions can create potential problems. An increase in new property coming onto the market in the same area creates a threat to existing tenancies as tenants may look to upgrade or expand. Strong supply can also reduce potential yields.

- **Changes in infrastructure**

Major infrastructure implementations or changes have both a beneficial and negative effect on commercial property returns. While infrastructure can attract commercial investment to an area, it has the negative effect of drawing tenants from existing areas. Keep in mind that areas close to CBDs are always popular. However, new growth areas further away tend to have more pronounced cycles.

➢ **Investment structures**

Individuals, companies, syndicates of investors and trusts can purchase commercial properties. For individuals or groups of less than five, an ideal structure to use is a Self Managed Super Fund (SMSF), so long as no mortgage is required, ie, the fund can purchase a property outright. An SMSF can also provide investors with tax benefits.

➢ **Finance**

Commercial property finance is often more complex than normal residential funding. Some financiers specialise in commercial property finance because of the complexity of some situations.

Normally banks will lend up to 70% of the value of the property but this value is often based on the rent/yields achieved by the property.

- **Management**

The management of commercial property is usually undertaken by commercial agents who operate more like 'dealmakers' than traditional residential agents.

The agent will try to match the property with an appropriate business and can lure businesses by arranging attractive deals, like rent-free periods, free fit-outs and the like.

- **The lease**

The details in the lease can make or break a commercial investment.

Considerations are:

- Leases can be three, five or even 10 years with an option to renew.
- Rental increases linked to CPI.
- The tenant pays all outgoings. This includes rates, water, body corporate fees, etc.
- The tenant makes good any physical changes (often the tenant will be allowed to install partitions etc, however, the owner reserves the right to have the office, shop or warehouse restored to its original condition). This enables the owner to rent to a suitable tenant when the existing tenant leaves.
- Some types of tenancies may require special council approval, for example chemical treatment facilities (such as those used by an electroplater), medical centres, childcare centres and so on.

After considering all these things, you can choose the best commercial property kilkenny according to your requirements.

For eg.)

a.) OUTSTANDING OPPORTUNITY TO LEASE!!!

Type: FOR LEASE

Property Features

Category : Offices

Tenancy: Vacant

Property Description

Take advantage of this busy location adjacent the area's largest shopping complex, Arndale Central. Join recognised tenants Status Employment and Anytime Fitness. Fantastic high visibility and exposure to busy Regency Road with easy access and ample onsite car parking (front and rear), and Torrens Road close by giving quick access to the city

For further inquiry or to arrange inspection, explore https://www.commercialproperty2sell.com.au/details/outstanding-opportunity-to-lease.php

b.) OUTSTANDING OPPORTUNITY TO LEASE!!!

Type: FOR LEASE

Property Features

Category : Retail

Tenancy: Vacant

Property Description

Take advantage of this busy location adjacent the area's largest shopping complex, Arndale Central. Join recognised tenants Status Employment and Anytime Fitness. Fantastic high visibility and exposure to busy Regency Road with easy access and ample onsite car parking (front and rear), and Torrens Road close by giving quick access to the city

For further inquiry or to arrange inspection, explore https://www.commercialproperty2sell.com.au/details/outstanding-opportunity-to-lease-6819.php

You can find better opportunities of commercial property kilkenny, here https://www.commercialproperty2sell.com.au/for-lease/sa/kilkenny/

V. Leasing and Renting Commercial Premises Kilkenny

This section has information for:

- the lessor, or owner of the premises
- the renter, or tenant of the premises.

- **Leasing (as owner)**

Income tax

If you lease commercial premises to others you must include the full amount of rent you earn in your income tax return.

You can claim a deduction for your related expenses for the period your property is rented or available for rent:

- generally, you can claim an immediate deduction for expenses relating to the management and maintenance of the property, including interest on loans.
- some expenses are claimed over a number of years, including depreciation costs (decline in value of depreciating assets such as carpet, furniture and appliances), and certain construction expenditure.

You can't claim:

- acquisition and disposal costs of the property – these are usually included in the property's cost base for capital gains tax purposes
- expenses not actually paid by you, such as water or electricity charges paid by your tenants
- expenses not related to the rental of the property.

GST

You're liable for GST on the rent you charge on commercial premises if you're registered, or required to be registered, for GST.

You may be required to register for GST if you're dealing with property, including one-off transactions such as buying, selling, leasing and developing (that may constitute conducting an enterprise) and your turnover from these activities exceeds the GST registration turnover threshold.

You can claim GST credits on your purchases that relate to renting out your property (subject to the normal rules on GST credits) – such as the GST included in the managing agent's fees.

- **Renting (as tenant)**

If you rent a commercial property as your business premises, the rent is tax deductible.

As the renter (tenant), you may be able to claim GST credits for the GST included in the rent if you and the lessor are registered, or required to be registered, for GST.

Source: https://www.ato.gov.au/General/Property/Property-used-in-running-a-business/Leasing-and-renting-commercial-premises/

VI. Tips for Building Wealth through Commercial Properties

1. Due diligence & market research

Understanding the market is the key to success in commercial property.

Read what you can and get to know the market well.

Research every thing from the big picture (projections of the economy and vacancy rates) to small details such as walking around and ringing agents to check on rents in the area.

Investigate the health of the business sector you expect your tenant to come form and changes to infrastructure and local and state authorities plan for the region.

2. Invest in prime positions

Always invest in prime retail, commercial or industrial locations — high demand positions that are popular with tenants and purchasers.

Consider visibility, accessibility to public transport and parking.

3. Purchase a leased property

When commencing investment in commercial property mitigate your risks by buying one that is already leased to a good tenant on a long lease.

4. Tenant calibre and lease term

As the value of your commercial investment will depend upon your rental return, a strong tenant on a long lease (minimum 5 years) will underpin a great investment.

Check the rental per sq mt and ensure that the rate is not inflated compared to market rentals.

If the rental on your lease is $500 per sq mt and the market rental is $700 per sq mt then there is upside potential at our next rent review.

If the current rent is above market rental, you may be overpaying for the property and you will have liitle upside potential for rent reviews and therefore increased capital values.

5. Lease Structure

This includes the length of the lease, the frequency and methods of rent review, and who pays the operating costs.

Of course it would be preferable to have a long lease with regular rent reviews to market with a minimum of CPI increase and a tenant who pays all the outgoings.

6. Recent Construction

Generally recently built properties will have ongoing appeal to tenants and require less renovation.

They will also have higher depreciation benefits.

7. Flexible Design

This means you will not be left with an inefficient floor layout if you sublease the space.

For industrial buildings it means buildings where the proportion of office space can easily be varied.

8. Invest in properties with development potential

Look for undercapitalised properties. Ones where tenants are paying below market rent or properties that are underdeveloped.

VII. The Final Words

Small new or 'off-the-plan' commercial suites or warehouses in high-demand areas provide a lower risk option for investors to enter the commercial property market. Entry prices range from about $250,000 and initial returns are often guaranteed for the first year. After this, regular yearly CPI increases help maintain reasonable yields.

Having the ability to let newly finished offices or warehouses adds to the attraction of this type of commercial investment.

However, this doesn't negate the requirement or importance of understanding and managing the associated risks. This information will hold the investor in good stead as they move into larger commercial deals.

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